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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF:) DOCKET NO. E-00000F-07-0199

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SUMMER 2013 ENERGY

PREPAREDNESS.

) SPECIAL OPEN MEETING

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Arizona Corporation Commission

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2 BE IT REMEMBERED that a Commission Staff Meeting
3 was held at the Arizona Corporation Commission,
4 1200 West Washington Street, Phoenix, Arizona,
5 commencing on the 25th day of April, 2013.

6

7 BEFORE: BOB STUMP, Chairman
8 GARY PIERCE, Commissioner
9 BREND A BURNS, Commissioner
BOB BURNS, Commissioner
SUSAN BITTER SMITH, Commissioner

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12 APPEARANCES:
13 For Arizona Public Service Company:

14 Jim Wilde, Director of Resource Planning
15 Donna Easterly, Director of Statewide Delivery

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20 Katherine A. McNally
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2 (Commencement of video recorded proceedings.)

3 CHMN. STUMP: All right. Welcome to the 2013
4 Summer Preparedness. We'll jump right in with APS. And
5 if you could introduce yourselves from your left to your
6 right, that'd be great.

7 MR. WILDE: Thank you, Chairman Stump, and good
8 morning, Commissioners. My name is Jim Wilde. I'm the
9 Director of Resource Planning for Arizona Public
10 Service. And seated to my left is Donna Easterly. She
11 is the Director of Statewide Delivery, also for APS.

12 We appreciate the opportunity to talk with you
13 today about summer preparedness. We've got an agenda up
14 here on the screen that we've put up. We're going to be
15 covering loads and resources, and loads is simply
16 another word for peak demand and the resources that
17 we'll have to meet peak demand. So we'll be covering
18 peak demand and the resources that we have prepared for
19 that. We'll also be talking about fuel supplies, and
20 Donna will talk about maintenance activities, emergency
21 preparedness, and customer outreach.

22 So let's go ahead and get started. I think
23 everyone is familiar with our service territory, but it
24 helps always to kind of take a look at it, and it
25 reminds me of how broad our service territory is. It

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2 essentially stretches from the Colorado River, over east
3 to the White Mountains, and then north from the
4 Grand Canyon down south to, effectively, the border.
5 And you see the communities of Yuma and Douglas, also,
6 that we serve, so a very broad service territory.

7 And you can see some of the service statistics
8 that we have there in terms of the equipment that we
9 have and the infrastructure investment that we've made
10 to keep the lights on. So we've got 11 counties that we
11 serve and a whole lot of substations and distribution
12 and transmission equipment and generation assets to go
13 with that.

14 So let's talk about the generation resources for
15 just a minute. We'll summarize those, and then we'll
16 move on into what customer demand looks like.

17 So from a resource standpoint, we're all
18 familiar with the Palo Verde Nuclear Generating Station.
19 We own 29.1 percent of the plant and, for us, that
20 equates to 1,146 megawatts. We own some coal assets, as
21 you all are aware. And in this particular slide, we've
22 included the Southern California Edison share of Four
23 Corners. And we've also assumed here, as it says in
24 Footnote 1, the assumption of the retirement of the
25 older units, Units 1, 2, and 3, so for 1,900 megawatts

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2 of coal.

3 We've got some gas combined-cycle units -- some
4 of those are in the Valley here and some of those are
5 out near Palo Verde -- of almost 2,000 megawatts. We've
6 got some older gas/oil CTs and some steam units, and
7 these units are key for reliability in the Phoenix metro
8 area, because a lot of these units are inside the metro
9 Phoenix load pocket. And so some of those older units,
10 but very important units, and about 1,400 megawatts of
11 those.

12 And I think we've talked quite a bit about our
13 long-term contracts. We've got over 2,000 megawatts of
14 purchases that we've made. And some of those purchases
15 are with the merchant generation community. One
16 purchase is a diversity exchange with another utility,
17 and those purchases will start to expire beginning in
18 2015, so driving a future resource need out in the
19 future that we've talked about in the CAP resource
20 planning docket.

21 From a renewable standpoint, we've been
22 developing renewable energy, as you well know, and we've
23 also listed the nameplate capacity, which is simply
24 another word for the installed capacity.

25 So for example, on a wind turbine, we might have

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2 a 100-megawatt facility, but based on the output profile
3 of that facility, that might produce 20 megawatts at the
4 time of peak, and so that's how we assess the
5 probability that we'll have peak or what we call
6 coincident peak output. So of 434 megawatts of
7 nameplate capacity, we have 161 megawatts that we would
8 actually count at the time of peak, for our loads and
9 resources table, giving us 8,998 megawatts of resources.

10 Let's move on now and talk about what the demand
11 looks like, or what we sometimes call "load." You can
12 see that if you go back to 2011, and even now through
13 2013, the forecast really hasn't changed a whole lot.
14 And I think we've talked a little bit about the slow
15 growth on our system. I know we've talked about the
16 effects of the recession, and really what we're seeing
17 today is slow growth.

18 We've talked about growth returning in the 2015
19 time frame, is when we believe that growth will more
20 materially return.

21 You can see the actuals there in the blue, in
22 2011, very close to forecast.

23 In 2012, we had some "hotter than expected"
24 temperatures, and we had loads that were 140 megawatts
25 or so higher than what we had predicted, and we

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2 attribute that to the "hotter than expected" weather
3 that we had. And so you can see this year's forecast of
4 7,102 -- again, not a whole lot of change from what we
5 had been experiencing in the past -- a little bit of
6 growth, but not much.

7 So let's talk about what it looks like now when
8 we compare peak demand and the resources. So this is a
9 look at comparing those two in a reserve margin that we
10 always share. Reserve margins are really there to
11 account for uncertainty, and uncertainties like weather
12 and the economy, you know, we've talked about that a
13 little bit.

14 But unplanned unit outages, if there's a forced
15 outage on a unit, we have to have reserves to cover
16 that. And then we also have customer programs that are
17 starting to ramp up, and as those customer programs ramp
18 up, our reserves will have to account for that. It'll
19 have to take that into consideration. So from a reserve
20 margin standpoint, we have a current reserve margin of
21 28 percent.

22 And let me just stop and talk about that for
23 just a second.

24 In the resource planning docket,
25 Commissioner Pierce had issued a letter in that

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2 docket -- and I don't want to mix too many dockets here,
3 but I think it's important just to briefly talk about
4 it. We had a letter that talked about reserve margins,
5 and we responded to that letter. And we have a current
6 reserve margin of 28 percent.

7 Let me give some context around that, if I
8 could. We normally plan to a 15 percent reserve margin
9 as a minimum reserve margin. So as a minimum, there's
10 going to be some reasonable range around between
11 15 percent and something higher. You're not going to be
12 directly at 15 percent, because that's a minimum --
13 certainly not saying that you should be at 28 percent,
14 though.

15 There's a couple of things that are really
16 driving our reserve margin today. In the past we've
17 talked about the recession, and this is all consistent
18 with what we said in Commissioner Pierce's letter, and
19 in our response to that. The recession alone has
20 dropped our load forecast by some 1,400 megawatts from
21 when we looked at our load forecast prior to the
22 recession. So if you compare what we thought we were
23 going to do for, say, 2013 to today, and you looked at
24 that before the recession, load forecast has dropped
25 considerably. That's probably the single-biggest driver

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2 that's affecting our reserve margin today.

3 We also have some other things that are driving
4 the reserve margin currently. And one of those -- well,
5 I should say two of those things are resource
6 procurement commitments that we've made in the past.
7 And it takes just a little bit of history to understand
8 some of how that's -- how that's evolved.

9 But in 2005, there was a procurement commitment
10 that we made in the 2005 rate case for 1,000 megawatts
11 of additional capacity, and out of that commitment that
12 we made in the '05 rate case came two resources. One
13 was the call options that you see here that I call out,
14 and another was a merchant generation PPA, a purchase
15 from a merchant generator.

16 And so I break out the call options only because
17 it's slightly different than what we had procured with
18 the steel in the ground. This is really an option to
19 purchase power from somebody else's steel in the ground.
20 And we only pay for it -- we pay a small demand fee, and
21 then we pay for it when we need it, like a strike price
22 on an option. We think of it kind of as an insurance
23 policy today. So it's a little bit different, but we
24 still call it capacity. It's still there when we need
25 it.

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2 So the reserve margin today is 28 percent, a
3 little bit higher than where we would want it to be
4 normally, and if you take out the call options, it's
5 19 percent. So the reserve margin today of 15 percent
6 roughly is about 1,000 megawatts, as a minimum, again.
7 So some reasonable bandwidth around that, I think, is
8 where we would want to be.

9 If you subtracted out the merchant generation
10 purchase that we made back in '05 -- or we actually made
11 the purchase in '06, the reserve margin would be
12 deficient to where we would want it to be. It would be
13 down around 11 percent.

14 So that's kind of some history, and I'm sure
15 we'll talk about it more next week in the IRP context,
16 but -- and again, I hate to mix too many dockets at one
17 time, but I just wanted to talk about that because it's
18 on the page and it's relevant to the conversation.

19 So that's where we stand today from a reserve
20 margin perspective. So let's -- if there's -- I'd be
21 happy to stop and take some questions on that now, if
22 you'd like, or if you want me to move on, I can move on
23 and finish, and we can talk about it later, or however
24 you want to do it.

25 CHMN. STUMP: I'm happy to take them now.

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2 Colleagues, any -- yeah, Commissioner Burns, then
3 Commissioner Pierce.

4 COM. BRENDA BURNS: Mine goes back -- mine goes
5 back a couple of slides. Just on the generation
6 resources, on renewables, you did say something about
7 nameplate that maybe I didn't get, but there's a
8 nameplate 434 megawatts, but capacity at peak is 161.

9 MR. WILDE: That's correct.

10 COM. BRENDA BURNS: Can you explain --

11 MR. WILDE: Yeah.

12 COM. BRENDA BURNS: -- the difference in those
13 numbers?

14 MR. WILDE: You bet. So what we do when we look
15 at renewable energy -- renewable energy, as we know, is
16 intermittent. It produces its energy when the wind
17 blows or when the sun shines. And so we look at the
18 output profile of all of our resources, and we compare
19 that output profile to when we need energy the most, at
20 5 p.m. on a summer afternoon. If the output profile
21 doesn't match up perfectly with the installed capacity,
22 then we reduce that capacity that we can depend on at
23 the time of our peak.

24 For example, when we look at wind, we've seen
25 wind profiles that are very strong in the springtime --

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2 April -- today it's windy. Our peak load isn't today,
3 though. And so when you compare the output of, say,
4 wind in Arizona, or even in New Mexico, for that
5 example, the output profile doesn't match perfectly with
6 when our peak occurs. So we ascribe to that a
7 probabilistic number that represents how much we're
8 going to get at our peak at 5 p.m. in the afternoon. So
9 for a wind project, that would be about 20 percent.

10 For a solar project -- we talked about this
11 quite a bit in the IRP workshop -- we ascribe to
12 single-access tracking solar -- today we ascribe about
13 70 percent capacity value and 50 percent to fixed panel.
14 I think we've also talked about that, over time, as we
15 get more penetration on our system, the capacity value
16 for the solar, especially, will tend to reduce because
17 our peak that we have to respond to will get pushed
18 later and later in the evening, such that when we peak
19 at 7:30 p.m., the sun's down at that point --
20 incrementally, solar will have zero capacity value. So
21 there's some capacity value today, while the penetration
22 is low, and then it'll reduce over time.

23 Commissioner Burns, does that get to where you
24 want to --

25 COM. BRENDA BURNS: Yes, it does. And then

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2 probably the only other question, but I think it is. I
3 just wanted to make sure that DG, while it would be a
4 smaller component of it, that DG or rooftop solar is
5 included in those numbers.

6 MR. WILDE: The DG is actually not included in
7 this. It's taken out of what we consider that load to
8 be and what we consider those resources to be to meet
9 our load. So when we look at the load, the load has
10 already been reduced by the energy efficiency in the DG.
11 And so we plan to that net load, so it's not included in
12 here.

13 COM. BRENDA BURNS: And I mean, if it were, can
14 you put a number on it?

15 MR. WILDE: Yeah, you bet. We've got about
16 250 megawatts today of installed distributed capacity --
17 installed, so nameplate -- and so for a peak basis, it
18 would be somewhere, call it 125.

19 COM. BRENDA BURNS: Thank you.

20 MR. WILDE: Okay. You bet.

21 CHMN. STUMP: And Commissioner Pierce?

22 COM. PIERCE: Sure. Thank you, Mr. Chairman.

23 And actually, same slide, I had some of those
24 questions, but also this -- and the way I look at it is
25 I know that -- and I'm going to do this your way -- that

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2 as we have a summer day and we peak to the load that APS
3 needs to cover, the solar load is peaking higher and
4 hitting -- and tailing off, and so that's why you value
5 it less.

6 MR. WILDE: That's correct.

7 COM. PIERCE: But you already account in -- and
8 we had this discussion last year -- we account in the DG
9 component, the fixed. But what about, no matter what,
10 you have to be prepared at the extreme, because it could
11 be a cloudy day and still very hot, where perhaps we
12 have a problem with the solar -- with the fixed -- with
13 any solar, so you're backing that up. And I know that
14 you have certain assurances that you deal with, but the
15 reality is you have to back it up.

16 And so how much of this is in place because you
17 back -- have to back up solar? I guess the real
18 question is, If you're planning to have so much in
19 reserve capacity, would that really change? And does
20 that change and go down because you have solar, or does
21 it stay really exactly the same because you may not have
22 any solar? Although, that's not likely to happen
23 statewide, and you do have the utility scale ones spread
24 around, and we also have solar spread around, but it's
25 primarily in certain pockets in the Valley. So how much

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2 does solar take down what you need in reserve capacity?

3 MR. WILDE: Yeah, right. So I think -- and
4 you're right, we spent a lot of time on this back in
5 August in the IRP workshop, and we had a lot of good
6 discussion about it.

7 Today what we ascribe to solar for, let's say,
8 for example, 100 megawatts of solar, and let's call it
9 distributed for your example, today we ascribe a
10 50 percent capacity value. So for example, in your
11 case, if we had 100 megawatts of solar, we would ascribe
12 50 megawatts of peak contribution, and we would have to
13 back up, essentially, that other 50 with a gas unit.
14 And so that's how we approach it today.

15 But the point you're making, though, about the
16 capacity value, I think is very important, especially as
17 we get to it over time. One of the things that we
18 talked about in the IRP docket was with great -- and
19 today the levels are fairly small, so they're
20 manageable. And we take those things into account when
21 we assess our reserve margin; that's taken into account.
22 We have a process that takes that into account, an
23 engineering process called effective load carrying
24 capability, and it's a standard process throughout the
25 utility industry. That considers that.

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2 But moving forward, I think, is where the
3 important issue is, and I think we need to think about
4 that. As we move forward with more penetration of solar
5 PV, the issue really becomes of, as that peak -- as our
6 thermal peak moves further towards sunset, the value
7 that a solar unit will contribute to my peak is
8 effectively zero at that point. So we'll be adding
9 resources, solar, let's say, but we'll still have to
10 back it up with another resource. And so at that point,
11 regardless of how much solar is added to the system,
12 I'll still have to build another resource for that
13 7:30 p.m. peak, when I'm peaking at dusk. Now, whether
14 that's a gas turbine or whether it's some sort of
15 storage device, if that's economic, by that time, I
16 don't know.

17 COM. PIERCE: Or you'll have to buy it on the
18 market and back -- be ready with resources that you're
19 purchasing or that you're --

20 MR. WILDE: That's correct.

21 COM. PIERCE: -- you have an insurance backup,
22 so to speak.

23 MR. WILDE: That's correct. You're right.

24 COM. PIERCE: And I won't get into this now, but
25 I would be interested in the cost breakout to go out and

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2 buy that on the market. Obviously, it's less expensive
3 if you own it, if you already have it.

4 MR. WILDE: Right.

5 COM. PIERCE: If you build something new, that
6 may not be so inexpensive.

7 MR. WILDE: That's correct.

8 COM. PIERCE: So it's really a balancing. And I
9 would -- I just kind of wondered, we build something new
10 to back it up, we buy it on the market, and in adding
11 those together, what is the real cost of renewable
12 energy? I'm thinking about the same thing on wind and
13 the fact that we have wind, but we already have
14 capacity, so are we really -- are we adding wind, and we
15 just got -- we have to find a place to wholesale it?

16 MR. WILDE: That's an excellent question. So I
17 think -- so let's stop and think about that for a
18 second, because I think your question is right on. As
19 we think about the cost, in our IRP our models take that
20 into account. And so when we think about the cost of
21 that backup generation that you mentioned, as we go
22 forward in time we're adding resources to that mix,
23 right? We're adding new resources, because the peak has
24 shifted and the capacity value has diminished, and those
25 resources, to your point, Commissioner, have a cost to

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2 them. So that's taken into account.

3 But I want to talk about your market point,
4 because I think it's very good. In order to manage
5 solar generation and intermittency of renewables, we
6 will need generation that is flexible.

7 The market today has some surplus energy out
8 near the Palo Verde hub in the form of large
9 combined-cycle generating units. Those can be
10 effective, but what can be more effective at managing
11 the intermittency are combustion turbines. And so when
12 we go forward and think about how we want to develop the
13 fleet, if you will, prepare the resource plan for
14 meeting increased penetration of solar DE or increased
15 penetration of renewables in general, it's going to be a
16 mix of technologies. Yes, you will be able to use the
17 combined-cycle generation, no question about that. But
18 there's going to have to be a look at the need for
19 combustion turbines.

20 If you look at California and some of the things
21 that they've been doing in terms of their policies and
22 so forth, they have added, or they are asking folks to
23 add, combustion turbines, because combustion turbines
24 can be started and stopped multiple times a day. A
25 combined-cycle unit really can't. So when we get those

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2 multiple peaks during the day that we've talked about, a
3 combustion turbine will probably be the way to manage
4 that.

5 COM. PIERCE: Because combustion turbine is a
6 ten-minute on.

7 MR. WILDE: That's correct.

8 COM. PIERCE: And I was kind of -- I didn't want
9 to just avoid the California comparison, but I think
10 what concerns me is they add a lot more renewable.
11 There'll be a demand. They want people to add, but if
12 people -- if merchants do not add capacity -- and
13 there's got to be some assurances for them to do that --
14 that could create a very expensive market for us in the
15 open market to buy excess capacity. It could be what
16 California does, because their market is so huge, and
17 how much renewable they plan to employ makes it very
18 difficult, I think, on our part, to judge what the cost
19 may be of not having owned generation by the monopoly.

20 MR. WILDE: You are absolutely correct.

21 COM. PIERCE: Thank you.

22 CHMN. STUMP: Mr. Wilde, to that point of the
23 161 megawatts, how much is that? I don't believe you
24 told us. How much is that utility owned?

25 MR. WILDE: I think today, I -- let's see, I've

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2 got the numbers here. But let me just say that the
3 preponderance of it is third-party PPA, and I think --
4 and I can provide you the numbers, Chairman Stump.

5 CHMN. STUMP: Okay.

6 MR. WILDE: But the preponderance of it is
7 third-party owned, because what makes up the lion's
8 share of it today is 300 megawatts of wind, and those
9 are all PPAs. There are some utility-owned solar
10 projects in there, but it's de minimus relative to the
11 third-party owned. And we can get you the exact numbers
12 on that.

13 CHMN. STUMP: Sure. And I know some of my
14 colleagues took a tour yesterday. How much would Solana
15 add to this mix, or how would that affect it?

16 MR. WILDE: Yeah, it's going to be around 250 to
17 275 megawatts. And so we're hopeful to see that come
18 online. I think it's going to be a nice addition to the
19 mix.

20 CHMN. STUMP: Okay.

21 MR. WILDE: And then, of course, that has
22 thermal storage to it, so that'll be able to continue
23 operating into the evening.

24 CHMN. STUMP: Okay. Commissioner Bitter Smith?

25 COM. BITTER SMITH: Mr. Chairman, Jim, just, I

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2 think, an obvious question and one I had continued to be
3 updated from you on. But I wanted, on the same chart,
4 to reference the note that talks about the assumption of
5 Four Corners. Can you, just for the benefit of all of
6 us, let us know how probably that assumption is? Are
7 there hiccups to that purchase acquisition?

8 MR. WILDE: Well, of course, I believe the
9 transaction is probable, and I fully expect it to
10 happen. Of course, we know that the outcome does not
11 fully rest in APS's hands at this point.

12 And so what we have, right now, is we have, of
13 course, the Navajo Nation in a process to purchase the
14 mine from BHP. And as that process continues, we expect
15 a successful outcome. We expect notification here
16 sometime in the second quarter from the Navajo Nation.
17 Once we hear their vote and how they want to proceed
18 with that, then it's our expectation that we'll finalize
19 the coal contract right after that, and then we'll
20 finish and consummate the transaction with SCE, yeah.

21 COM. BITTER SMITH: Thank you.

22 MR. WILDE: Okay. You bet.

23 CHMN. STUMP: Commissioner Burns?

24 COM. BRENDA BURNS: To get back to the renewable
25 follow-up question to your conversation with

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2 Commissioner Pierce, and that is basically we will get
3 to a one-for-one replacement for backup energy
4 requirement at some point.

5 MR. WILDE: Right.

6 COM. BRENDA BURNS: How far away is that?

7 MR. WILDE: It really depends on the penetration
8 levels obviously. But, you know, right now the forecast
9 is going to be somewhere beyond the 2025 time frame, so
10 it's not currently in this current resource plan, based
11 on today's forecast, until you get to a zero value.

12 COM. BRENDA BURNS: So were you at 50 percent
13 now?

14 MR. WILDE: We're at 50 percent today, but
15 declining with every solar installation that occurs.

16 COM. BRENDA BURNS: Declining meaning you need
17 more?

18 MR. WILDE: The capacity value --

19 COM. BRENDA BURNS: Yeah.

20 MR. WILDE: -- goes down and we have to back it
21 up more.

22 COM. BRENDA BURNS: More.

23 MR. WILDE: And so the real wild card in that
24 is, What's the penetration going to be? And, of course,
25 we have an estimate that's in our IRP that you can see,

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2 and we'll be looking at that estimate again, and we're
3 in the process of updating that as we see new
4 installations come online. But it's really -- oops,
5 there we go. It's really something, based on today's
6 forecast, that I don't see it going to zero in this
7 planning cycle, but it will degrade substantially. And
8 so I think that's really the point, right? Whether it
9 gets to zero or whether it's 20 percent, I think to the
10 point we were talking about earlier, you're going to be
11 backing it up, and there's going to be costs associated
12 with that.

13 COM. BRENDA BURNS: And just real quick, the
14 long-term contracts, you didn't break those down. Are
15 any -- you said merchant and so on, but are there any
16 renewables there? Or what are they mostly?

17 MR. WILDE: They're mostly gas, and there's a
18 diversity exchange agreement with another utility.
19 There's also, in that long-term contract line, there's
20 those -- the market call options that I talked about.
21 They're embedded in there now. And those start to
22 expire in two years, in 2015.

23 COM. BRENDA BURNS: Thank you.

24 MR. WILDE: Okay.

25 CHMN. STUMP: Okay. Thanks.

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2 MR. WILDE: Okay. You bet.

3 So we talked about reserve margin a little bit,
4 but that is not the only measure of preparedness. I
5 want to spend just a minute and talk about what's called
6 maximum load serving capability -- and that's a very
7 utility term, I recognize that. It's a term that we've
8 grown comfortable with, and I hate to use utility speak,
9 but let me try to explain.

10 The maximum load serving capability -- and we
11 defined this for the metro Phoenix area -- is the
12 capability, the maximum capability to really keep the
13 lights on when you're fully utilizing your transmission
14 resources and fully utilizing your Valley generation
15 resources. It's really kind of a load pocket
16 constrained area. And so we look at that in terms of
17 what's the maximum capability to keep the lights on when
18 you are maximizing your transmission and maximizing your
19 generation in the Valley?

20 So this is also something that -- and you can
21 see APS, SRP -- this is something that APS and SRP work
22 very closely together on. We keep the lights on in
23 Phoenix together. And APS and SRP work closely together
24 because our systems are so intertwined. And we've got a
25 long history of a positive relationship with Salt, and I

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2 used to work for Salt many years ago. And this is
3 something that we take seriously, and we do work well
4 together.

5 But we can't do it without each other. And so
6 if you look at the load serving capability, we've got
7 load serving capability of around 14,500, plus or minus,
8 14,500. If you look at the loads -- and this is SRP and
9 APS combined, about 11,500, plus or minus -- and we've
10 had some forecasts and some actuals that are pretty
11 close to the forecast. You can see last year I talked
12 about the weather. It was no different for Salt River.
13 We had some unexpected hot weather, and so we had a
14 little bit of higher load there.

15 This year we're expecting loads of about 11,700
16 in the Valley metro area. And as you can see by the
17 chart, we have the capability to keep the lights on. So
18 I think the bottom-line message here, not only with
19 APS -- and I'm sure Salt will talk about this in their
20 presentation -- but we're well prepared to keep the
21 lights on for this summer, not only on our system, but
22 as the Valley metro area.

23 We look at a similar metric for the Yuma area.
24 We have a similar type of schematic here, with the
25 numbers, of course, being a lot smaller, but we have

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2 600 megawatts of load serving capability in Yuma, and we
3 have about 400 or so, a little bit more than
4 400 megawatts of load, and you can see that in 2011,
5 pretty close to forecast.

6 We do have a little bit of load growth in Yuma
7 that's planned. There is some expansion at the Marine
8 Corps air base that we've taken into consideration here.
9 They're adding some barracks and some air-conditioning
10 and so forth, and we've incorporated that into the load
11 forecast. But again, we're well prepared to keep the
12 lights on, so we have what we need in Yuma.

13 So that kind of rounds out the discussion on
14 load serving capability and resources, and I was going
15 to move now and talk about fuel supplies, because
16 obviously you can't run a generator without fuel
17 supplies, so I was just going to spend just a minute
18 talking about fuel.

19 At Palo Verde we have all of our fuel
20 requirements sourced, contracted, through 2017, and all
21 of the inventories in place for this summer. So we are
22 well prepared at Palo Verde with fuel. We had a pretty
23 good year last year. It was the best production year
24 ever. And we had a good capacity factor. So things are
25 working well at Palo Verde. So plenty of fuel, and the

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2 operations are running smoothly.

3 When it comes to the coal fleet, the situation
4 is similar. We have reserves in place to meet the
5 commitments that we have. We talked a little bit about
6 the Four Corners plant and the BHP Navajo mine.

7 Obviously we've got a sale transaction that's in the
8 process of taking place with the Navajo Nation there.

9 Current contract term runs through 2016, and of
10 course, the new contract will pick up where the old one
11 leaves off. We do have reserves in place at the mine.

12 And at the Cholla Power Plant, the situation is
13 very similar, except Cholla is not a mine-mouth plant.
14 The mine is in New Mexico. We have contract commitments
15 in place through 2024, and that's with Peabody. It
16 doesn't say that on here, but that's with Peabody. And
17 again, we have reserves in place as we need them.

18 So we have plenty of coal, plenty of nuclear
19 fuel to do what we need to do to keep the lights on.

20 Natural gas, we've talked a little bit about
21 that. That's a very important fuel, and we talked about
22 it not only from a peak demand perspective, but we've
23 talked about natural gas from what we call a load
24 following perspective. And what that means is as the
25 load bounces around during the day, and as we have

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2 intermittent renewables on our system, we have to have
3 natural gas resources that are flexible enough to
4 respond to that, and so the natural gas component is
5 very important.

6 So currently we have sufficient pipeline
7 transportation in place. We have sufficient supplies in
8 place of gas to meet our needs, and I think as we've
9 mentioned before, El Paso Natural Gas is really the
10 primary provider of pipeline capacity. El Paso Natural
11 Gas has pipeline capabilities to all of our facilities.
12 But we have some level of redundancy with the Yucca
13 facility down in Yuma and with the Redhawk and the
14 Sundance Power Plant.

15 The Transwestern Pipeline has capacity to those
16 plants, and so we do have dual fuel capability or dual
17 pipeline capability, if you will, at those power plants,
18 and the North Baja Pipeline serves Yucca down in Yuma,
19 Units 5 and 6, and El Paso serves the remaining units.
20 So again, with natural gas, we've got plenty of supply
21 on hand and plenty of transportation capability.

22 So I think that rounds out my section of the
23 presentation. And if there are no questions that I've
24 got, I'll turn it over to Donna. But I'll wait for
25 questions.

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2 CHMN. STUMP: Thanks. Commissioner Burns?

3 COM. BRENDA BURNS: Thank you. I think we ask
4 this every time we go -- I can't get my microphone --
5 every time we just broach the natural gas subject, and
6 I'm hearing you say that, you know, you don't have a
7 problem, you've got plenty of supply. And yet there are
8 a number of companies -- and we've had discussions --
9 who've had some interest in natural gas supply here in
10 the state. Is there anything else going on, or is it
11 pretty much no longer a discussion, are you aware?

12 MR. WILDE: In terms of natural gas supply, or
13 in terms of natural gas storage?

14 COM. BRENDA BURNS: Storage, storage.

15 MR. WILDE: Yeah. There's really no current
16 discussion, that I'm aware of, on storage. We looked at
17 storage a few years back, and there were some
18 possibilities that we looked at south of the Valley,
19 down near Picacho Peak, kind of some underground salt
20 caverns, if you will. And as we looked at the cost of
21 that, it really just didn't pencil out.

22 And so with the pipeline capabilities that we
23 have today, you know, we've looked at other storage
24 options. Should we look at storage in Texas, for
25 example, or some other location? It really doesn't

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2 provide you that same level of closeness, if you will,
3 that something in Arizona would. And so I think the
4 notion is still interesting to us. It would be nice to
5 have storage capability and the flexibility that that
6 would provide close to us in Arizona.

7 COM. BRENDA BURNS: In Arizona, right.

8 MR. WILDE: But the capabilities just don't
9 exist with the geologic formations that we've got, and
10 the cost is just prohibitive right now. So I think it's
11 an interesting concept, but it just hasn't penciled out.

12 CHMN. STUMP: Mr. Pierce.

13 COM. PIERCE: Mr. Chairman, thank you. I'm
14 looking at overall supply. And storage, I think, would
15 be helpful. But you see the lines and actually you
16 don't show -- because these are the looping lines on the
17 California side, but actually these lines go in and
18 supply natural gas into California.

19 MR. WILDE: That's correct.

20 COM. PIERCE: And with the renewable standard
21 that California's adopted, and with the San Onofre
22 Nuclear Power Plant, which I'm not sure will ever
23 reopen -- and so I look at this summer as maybe a test,
24 and I -- although next year will be my last summer
25 preparedness, I'd almost really like to see a series of

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2 sheets or slides on the impact, because they may have a
3 perfect storm coming as they reduce power supply from
4 coal that -- from Four Corners and from NGS, as they
5 reduce the amount -- or as they increase the amount of
6 renewable and the demand that's going to -- because you
7 pointed out earlier, they would like to see gas-powered
8 plants, not combined-cycle, but the --

9 MR. WILDE: The combustion turbines.

10 COM. PIERCE: Yeah, combustion turbines, and
11 what that will do in the marketplace, not just on price,
12 but for natural gas. And do we have enough pipeline
13 capacity to take care of our needs in Arizona and the
14 needs in California without impacting price, so much, or
15 actually impacting our ability to fire up our power
16 plants at peak?

17 MR. WILDE: Yeah. No, I think that's a great
18 question.

19 Just some context around California, first, and
20 then we'll talk about capabilities and what that looks
21 like going forward. California gets gas supply from
22 many different locations. It gets a significant amount
23 of its gas supply from the north, from Canada, through
24 transportation that comes down through Northern
25 California. It also gets supply through the Kern River

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2 Pipeline that comes out of the Rockies area into
3 Southern California, and a new pipeline called the Ruby
4 Pipeline, that goes essentially, again, from the Rockies
5 area into Northern California. So there's a significant
6 amount of supply that comes non-El Paso based into
7 California.

8 But Commissioner Pierce, your point is good,
9 because this -- if we think about how we rely on the
10 renewable capacity and how we credit that in our loads
11 and resources table I think is an important concept to
12 think about from a gas supply-and-need perspective.

13 And to your point, we're all going to be relying
14 on natural gas more in the future. There's no question
15 about that.

16 In the near term --

17 COM. PIERCE: Well, especially California will,
18 because they've said -- I mean, if they're closing
19 nuclear and they're shutting the coal production that
20 would come in -- the electrons that would be produced by
21 coal, I mean, they're kind of narrowing the box they can
22 fit into. And if us and all the states nearby --
23 especially those of us who have solar -- and as you
24 said, their backup will eventually be one-to-one as
25 well, that's a lot of natural gas.

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2 MR. WILDE: It is a lot of natural gas. And so
3 from a supply perspective, it's really not a supply
4 issue, but maybe to your point, it's a transportation
5 issue. And so there's sufficient supply with the shale.

6 Now, the question is, How do we get it to the
7 place where we need it? And so today there's sufficient
8 supply. And for this summer there'll be sufficient
9 supply. San Onofre wasn't online last summer, and to
10 your point, hard to say whether it will ever be on
11 again, but from an ongoing perspective, there's a couple
12 of things going on to look at this.

13 Number one, there is a compression available on
14 pipelines that can be either, A, restarted or, B,
15 developed. We've had discussions with pipelines, and
16 we've talked about adding compression to pipelines. It
17 very well could be in the near future. I don't know
18 whether it will be in the next few years, or perhaps
19 before 2020, where we'll have to think seriously about
20 adding gas compression to the pipelines, and there'll be
21 a cost associated with that. And that's going to be
22 something that we'll probably have to do in Arizona at
23 some point. I don't have an exact prediction of when
24 that will be, but at some point we will.

25 There are some studies that are being developed

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2 right now -- and I'm participating in one of them
3 through the Western Interstate Energy Board, through
4 WGA. And we've gathered together all of our folks from
5 around the West, and we're going to conduct an RFP that
6 we've been talking about, to look at what is the
7 pipeline capability, and do some scenario planning. And
8 it'll look at what happens if coal units retire,
9 prematurely, and what happens if renewables -- the
10 penetration increases more dramatically than what we may
11 have forecast. So just starting that work, but there is
12 work being done on that.

13 I think your point is a good one, we need to
14 look at it a little bit more. But in the near term, I
15 think we have some flexibility with added compression on
16 pipelines.

17 COM. PIERCE: Thank you.

18 CHMN. STUMP: Yeah, Commissioner Bob Burns.

19 COM. BOB BURNS: Yes, thank you, Mr. Chairman.

20 Let me understand on this suppression you're
21 talking about. To me that means added pressure in the
22 line, right? So adding pressure to the line, how does
23 that affect the safety of the line?

24 MR. WILDE: Well, I don't think -- you know, in
25 terms of the pipeline, I'm not a pipeline expert, and so

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2 in terms of the compression, in terms of the pressure on
3 the pipeline, there are safety regulations that the
4 pipelines would have to submit to, and they wouldn't be
5 adding compression. There's already compression on the
6 pipelines. But we wouldn't add compression on
7 pipelines, or pipelines themselves wouldn't add
8 compression in an unsafe manner, and they're regulated
9 like we are.

10 And so in terms of the safety, I don't know that
11 there's a specific safety risk in doing that. I think
12 if they went outside of the bounds of what their
13 regulations would require, then perhaps there would be,
14 but I wouldn't suspect that any of the pipelines would
15 go beyond what their regulations would allow. I think
16 there is sufficient capability, though, to add
17 compression to pipelines that would be within the bounds
18 of what the pipelines regulations would allow and what
19 they would consider safe. But again, I'm not an expert
20 on what the pipelines can and cannot do --

21 COM. BOB BURNS: Yeah, well --

22 MR. WILDE: -- in terms of safety.

23 COM. BOB BURNS: Yeah, Mr. Chairman, but still
24 that would be a limiting factor as to how much gas could
25 be moved through that pipeline, right? I mean, they

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2 can't exceed their capacity, and they can't exceed their
3 pressure limits and so forth, so --

4 MR. WILDE: That's correct. And so at some
5 point -- and I don't know when that point will be, I
6 think it's not in the near future -- but at some point
7 we would have to look to the gas pipeline companies to
8 construct new pipelines. And so as everyone moves to
9 gas, this is the concern moving forward. And so I think
10 new pipelines ultimately, and new infrastructure for
11 that, would have to be developed.

12 COM. BOB BURNS: Thank you.

13 CHMN. STUMP: Great. Thanks.

14 MR. WILDE: Okay. So with that, I'm going to
15 turn it over to Donna, and she's going to talk about
16 statewide delivery. So I think we're going to switch,
17 aren't we?

18 MS. EASTERLY: You run it.

19 MR. WILDE: Oh, you want me to run it?

20 MS. EASTERLY: That's fine.

21 Chairman Stump, Commissioners, good morning.
22 It's good to be here this morning.

23 So for the remainder of the presentation, I'm
24 going to touch on planned reliability activities,
25 emergency response and preparedness, as well as customer

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2 outreach and communication efforts.

3 Our planned reliability activities are designed
4 to make sure that our system and infrastructure are
5 ready to meet the summer demand. And we have a number
6 of programs in place to ensure substation equipment
7 health, and so I'm going to touch on just a couple of
8 those.

9 We have realtime monitoring equipment on our
10 critical assets, which would be our large substation
11 transformers, and essentially this allows us to identify
12 potential issues prior to a failure occurring. Also
13 within our substations we have a variety of predictive
14 and preventive maintenance initiatives that we actually
15 execute on throughout the year. One of those, as an
16 example, is thermography scanning, which simply put is,
17 through infrared we're able to identify any hot spots
18 that may be occurring on our lines or our equipment or
19 connections. Again, an opportunity to identify a
20 failure before one occurs.

21 And we have a myriad of other programs in place
22 from a preventive maintenance standpoint, such as aged
23 equipment replacements. We also do wood pole
24 inspections and replacements, as well as a cable
25 replacement program, just to name a few.

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2 We also do annual line patrols, and this is a
3 visual inspection of our transmission and distribution
4 lines for any needed maintenance and repairs.
5 Additionally, on a monthly basis, we do substation and
6 capacitor bank checks, again, just to ensure that our
7 equipment is operational and functional as we move into
8 the summer months.

9 Another area of focus is vegetation management
10 and wildfire planning, again, with ongoing drought
11 conditions, a few things we do from a preparedness
12 standpoint. In the spring of each year we attend the
13 annual wildfire academy in Prescott. We also
14 participate in pre-wildfire season meetings with five
15 national forests, and really both of these events, the
16 academy, as well as the preseason meetings, not only are
17 they a great opportunity for us to network and get
18 reacquainted with forestry personnel, but also with our
19 field fire personnel, but it's also a great opportunity
20 to review incident command protocols, roles and
21 responsibilities, as well as communication expectations
22 in the event of a wildfire.

23 Internally we take some measures to prepare our
24 APS personnel for fire season. This would be our first
25 responders or our trouble men, and so we want to ensure

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2 that they understand the dos and don'ts when entering
3 into fire-restricted areas.

4 Also, they are responsible to have a handful of
5 supplies with them, such as five gallons of water, fire
6 extinguishers, things of that nature. So again, an
7 opportunity to prepare them prior to the fire season.

8 We also have a vegetation management program,
9 where on a cyclical basis, we patrol our transmission
10 and distribution rights of way, and our goal here is to
11 ensure that our transmission corridors are clear of any
12 low-lying brush, as well as our distribution
13 subtransmission and transmission lines that they are
14 clear also. So from a vegetation management
15 perspective, through our rights of way and line
16 clearing, our goal is to enhance reliability and also
17 reduce the chance of wildfires.

18 So I'll spend just a couple of minutes now on
19 emergency preparedness and response. We interface
20 regularly, actually weekly, with emergency managers,
21 public safety personnel at the state, county, and local
22 levels, as well as with our peer utilities, when it
23 comes to emergency preparedness and response.

24 Additionally, we participate in statewide
25 exercises and mock drills. For example, in the fall of

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2 last year, we participated in an emergency evacuation
3 exercise, tabletop exercise with the Department of
4 Health Services. Right now we're in the planning stages
5 of the 2013 emergency exercise statewide that is
6 actually scheduled for November of this year. We do
7 incident command coordination and training, and finally
8 we also coordinate tours of our critical facilities.
9 Last September we had a tour of our Westwing facility
10 for all of our West Valley firefighters and other
11 personnel, and we plan to do the same at our Pinnacle
12 Peak facility this coming fall.

13 And when we have an event, a specific event,
14 such as an extended outage, a few things we do from a
15 customer outreach standpoint. We do targeted
16 communications to customers, as well as emergency
17 managers and public safety personnel within the local
18 area. We also work very closely with emergency managers
19 in terms of establishing shelters. Depending on the
20 situation, if the emergency managers feel that a shelter
21 is warranted, we certainly will partner with them and
22 help with those coordination efforts.

23 We take a couple of approaches when it comes to
24 dry and bagged ice for our customers in the event of an
25 extended outage. Depending on the logistics, the area

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2 that's impacted, we'll do one of two things. We'll
3 either establish a location where we will hand out the
4 dry or bagged ice to our customers, or we may partner
5 with a local grocery store, perhaps a Wal-Mart, where
6 our customers can go get their dry and bagged ice, and
7 then we will, in turn, reimburse them for their
8 purchase.

9 We have a medical care preparedness program.
10 This is for our customers who are on life-sustaining
11 medical equipment. And in the event of an extended
12 outage, we make contact with these customers to give
13 them the details of the outage, but our real goal here
14 is to provide these customers with information so that
15 based on their medical needs, they can decide if they
16 need to make other arrangements. Throughout the
17 duration of the outage, we stay in touch with these
18 customers, and then, of course, we follow up with them
19 once power has been restored.

20 We have a couple of sources that we use in terms
21 of communicating with our customers. As with most
22 utilities, we have a call center that's a 24/7 operation
23 with live agents, and within the call center we use what
24 we call an interactive voice response system, which
25 allows us to put recorded messages with details of the

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2 extended outage. It's typically the areas impacted,
3 estimated time of restoration and a cause, if we know
4 it. As we continue to hear from our field personnel
5 during the restoration efforts, we will update this
6 message accordingly. And then, in turn, when the power
7 is restored, we use the same system to do outbound calls
8 to our customers, and we want to ensure that their power
9 is, in fact, back on. And oftentimes during this
10 outbound call, we may find that there are pockets of
11 customers or perhaps maybe a single customer who might
12 still be without power, so it's an opportunity for us to
13 respond at that time.

14 Through our corporate communications group, we
15 communicate with the news media. We have a 24-hour
16 hotline that's monitored. We also have access to
17 Arizona Department of Public Safety's media alert
18 system. What this allows us to do is call into one
19 number that gets us into the news centers of the major
20 media outlets, where we can leave one message with the
21 outage details to all of them at one time.

22 And then finally we take advantage of social
23 media to communicate with our customers. We use
24 Facebook and Twitter, again, typically the same type of
25 information. And while we're not able to use it yet, we

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2 certainly recognize that text messaging is a popular way
3 of communicating these days, and so that's something
4 that is on the horizon in terms of a way of
5 communicating to our customers.

6 CHMN. STUMP: Commissioner Burns.

7 COM. BRENDA BURNS: Yes, I just had a question.
8 You may have said it; I may have missed it. But is
9 there something special for people who have -- they're
10 at home but they have medical equipment they need and so
11 on, specific cases? Do they -- is there some sort of
12 registration people can have with you? I didn't see
13 that covered here, but I may have missed it. Is there a
14 targeted --

15 MS. EASTERLY: Yes, Chairman Stump,
16 Commissioner Burns, what we do is our customers fill out
17 an application to apply for the medical care
18 preparedness program. And so once we get that
19 information back from the customer, we identify them in
20 our customer information system, with a little red
21 cross. And then in turn, we send those customers a
22 packet of outage information, as well as just
23 information about the program, but it provides them tips
24 of how to be prepared for an outage.

25 One thing new that we're actually doing this

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2 year in that packet for these medical monitored
3 customers is we're providing them with a sticker, if you
4 will, that's got APS's phone numbers on it, encouraging
5 them to place that right on their medical equipment for
6 easy reference, in the event of an outage.

7 COM. BRENDA BURNS: And how do they know to take
8 this step and sign up with you? How are they alerted
9 that there's even this program?

10 MS. EASTERLY: You know, that's a great
11 question, Commissioner Burns.

12 I don't believe it's part of the questioning
13 when a customer signs up for service. I am aware that
14 at times we will put maybe messages within our billing
15 that lets customers know of this program, but I can
16 certainly get back with you on that.

17 COM. BRENDA BURNS: I wonder about any
18 partnering with anyone who leases out the kind of
19 medical equipment or certain healthcare providers. I
20 don't know. It can't be a perfect thing, but we want to
21 do the best to reach as many people as possible so they
22 know it's there. So it would be interesting to
23 brainstorm some ideas.

24 MS. EASTERLY: Absolutely. Thank you for that.

25 CHMN. STUMP: And, Ms. Easterly, I have a

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2 question as well. I recently attended a summit with
3 Secretary Vilsack on transmission and wildfire
4 preparedness efforts. I think it's safe to say we
5 determined that Arizona utilities were doing a pretty
6 good job on that score, with regard to vegetation
7 management, and that our chain from smoke was actually
8 what seemed to be a more pressing issue.

9 What, if anything, can utilities do to mitigate
10 something like that? I mean, it's -- it would strike me
11 that there's not much you can do.

12 MS. EASTERLY: Chairman Stump, yes. When I
13 mentioned the efforts that we take to keep our
14 transmission corridors clear of the low-lying brush,
15 when there is a lot of brush, one of the challenges that
16 we have is the smoke gets up into our lines and the
17 particulates and that can cause us challenges. But in
18 terms of anything else, that's really keeping our
19 corridors clear is very important.

20 CHMN. STUMP: It seemed as though, as I say, the
21 arching was an issue that regardless of how clear you
22 keep it, you can't control the flow of the smoke,
23 needless to say, and so I guess you just do the best you
24 can in that regard?

25 MS. EASTERLY: Yes.

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2 CHMN. STUMP: Okay. Great.

3 MS. EASTERLY: So in summary, we feel very
4 comfortable that our generation resources, fuel
5 supplies, and transmission capacity are in place to meet
6 customer demand this summer. Our predictive and
7 preventive maintenance efforts are well underway and on
8 track. We will continue our ongoing coordination,
9 integration efforts with emergency planners, public
10 safety personnel at the county, state, and local levels,
11 and finally we will continue to use a variety of sources
12 to communicate with our customers when we have an
13 extended outage or any type of significant event.

14 Chairman and Commissioners, that concludes our
15 portion of the presentation. If there's any other
16 questions, I'd be happy to take them.

17 CHMN. STUMP: Okay. Any other questions for
18 APS?

19 FEMALE SPEAKER: Sorry, we haven't been able to
20 see each other very well today.

21 MS. EASTERLY: I have a long neck.

22 COM. PIERCE: Mr. Chairman.

23 CHMN. STUMP: Yeah, Commissioner Pierce.

24 COM. PIERCE: And I think that monitor on this
25 side is mainly for someone at the Staff table. And so I

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2 don't know that we really need it today.

3 By the way, this monitor here simply is the same
4 thing you see, but when there's not a presentation, it
5 allows me to be able to see if Commissioners Burns on
6 the other end or Commissioner Bitter Smith, when they're
7 speaking, it allows us to see what people who have it on
8 their monitor at home can see. That way I can -- you
9 know, I don't have to do this.

10 FEMALE SPEAKER: I think if I got a booster
11 seat, that would take care of it.

12 COM. PIERCE: But because I'm nearsighted, this
13 also is really, really clear for me, the presentations.

14 CHMN. STUMP: Nearsightedness, booster seats --
15 we have some issues here, anyway, along with our
16 technology. But great. Well, thanks to you both.

17 MS. EASTERLY: Thank you for your time.

18 CHMN. STUMP: Appreciate it very much.

19 (Conclusion of recorded video proceedings on
20 Item 6, at 55 minutes, 45 seconds.)

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1 THIS TEXT WAS TRANSCRIBED FROM A VIDEO RECORDING.

2 C E R T I F I C A T E

3

4 I, Katherine McNally, Certified
5 Transcriptionist, do hereby certify that the foregoing
6 pages 1 through 47 constitute a full, true, and accurate
7 transcript, from audio recording, of the proceedings had
8 in the foregoing matter, all done to the best of my
9 skill and ability.

10

11 SIGNED and dated this 15th day of May 2013.

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Katherine A. McNally

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KATHERINE A. McNALLY
Certified Electronic Transcriber
CET**D323

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